

## INCREASING U.S. AUTO EXPORTS AND GROWING U.S. AUTO JOBS THROUGH THE U.S.-KOREA TRADE AGREEMENT

**Please note: updated 12/5/10 to clarify agreement on safety, environmental standards.**

President Obama recognized that when it came to autos, the 2007 U.S.-Korea trade agreement did not go far enough to provide new market access to U.S. auto companies and to level the playing field for U.S. auto manufacturers and workers. The supplemental agreement announced today makes a number of important improvements:

- To deal with the large disparity between Korean auto sales to the U.S. and American car sales in Korea, U.S. auto companies and American auto workers now have provisions that give them the opportunity to increase sales to Korea before U.S. tariffs on Korean autos come down.
- To increase overall sales in Korea of more affordable American vehicles, and support more auto jobs here at home, we agreed to eliminate non-tariff barriers that severely restricted American automakers' access to the Korean market and raised the cost of producing vehicles for sale in that market.
- To level the playing field for America's auto industry and workers, we strengthened enforcement and protections from sudden harmful import surges.

### INCREASING ACCESS TO KOREA'S AUTO MARKET TO EXPAND U.S. EXPORTS AND SUPPORT JOBS HERE AT HOME

***Automotive Safety Standards:*** Safety standards have effectively operated as a non-tariff barrier to U.S. auto exports to Korea. The 2010 supplemental agreement provides that in any given year, as many as 25,000 cars per U.S. automaker – almost four times the number in the 2007 agreement – will be considered safety-compliant when imported into Korea provided they meet U.S. federal safety standards, which are among the most stringent in the world. Any U.S. automaker that eventually exports more than 25,000 cars to Korea in any given year will be able to comply cost-effectively with Korean safety standards.

***Automotive Environmental Standards:*** To remove a disproportionate burden on U.S. automakers while maintaining high standards for environmental protection, the 2010 agreement allows U.S. autos – already subject to strict American environmental standards – to be considered compliant with new Korean environmental standards on fuel economy and greenhouse gas emissions, developed since the 2007 agreement, if they achieve targets within 19 percent of those in Korea's new regulations. This provision will help American automakers sell their cars affordably in Korea without undermining Korea's environmental objectives.

***Taxes:*** In the 2007 agreement, Korea committed to reduce tax rates for American cars and to streamline current taxes based on engine size, which have tended to raise the cost of the typically larger size of American vehicles sold in Korea. Under the 2010 supplemental agreement, Korea has agreed to additional transparency in this area.

***Transparency:*** The 2007 agreement prohibits Korea from adopting new automotive regulations that create unnecessary barriers to trade, and establishes an early warning system for potential trade barriers. The 2010 supplemental agreement makes two important additions for significant regulations: creating a 12-month period between the time a final regulation is issued and the time auto companies must comply with it, giving companies sufficient time to adjust; and requiring Korea to develop a new review system within 24 months of entry into force to make sure that existing auto regulations accomplish their objectives in the least burdensome manner possible.

## **LEVELING THE PLAYING FIELD BY GIVING U.S. AUTOMAKERS AND WORKERS THE OPPORTUNITY TO TAKE ADVANTAGE OF INCREASED ACCESS TO KOREA'S MARKET**

***Car Tariff Elimination:*** The 2007 agreement would have immediately eliminated U.S. tariffs on an estimated 90 percent of Korea's auto exports, with remaining tariffs phased out by the third year of implementation. The 2010 supplemental agreement keeps the 2.5 percent U.S. tariff in place until the fifth year. At the same time, Korea will immediately cut its tariff on U.S. auto imports in half (from 8 percent to 4 percent), and fully eliminate that tariff in the fifth year.

***Truck Tariff Elimination:*** The 2007 agreement would have required the United States to start reducing its tariff on Korean trucks immediately and phase it out by the agreement's tenth year. The 2010 supplemental agreement allows the United States to maintain its 25 percent truck tariff until the eighth year and then phase it out by the tenth year – but holds Korea to its original commitment to eliminate its 10 percent tariff on U.S. trucks immediately.

***Tariffs on Electric Cars:*** In the 2007 agreement, the United States and Korea would have eliminated tariffs on electric cars and plug-in hybrids by the tenth year of implementation. Under the 2010 supplemental agreement, Korea will immediately reduce its electric car tariffs from 8 percent to 4 percent, and both countries will then phase out their tariffs by the fifth year. This is a concrete step toward achieving President Obama's goal of supporting America's green technologies.

## **MORE SAFEGUARDS FOR AMERICA'S AUTO INDUSTRY SUSTAIN JOBS HERE AT HOME**

***Special Motor Vehicle Safeguard:*** The 2007 agreement contained no safeguard specific to the U.S. auto industry. Under the 2010 supplemental agreement, Korea has committed to add a special safeguard for motor vehicles to ensure that the American auto industry does not suffer from any harmful surges in Korean auto imports due to this trade agreement.

Additional rules strengthen this auto safeguard. In the 2007 agreement, the general safeguard protections against harmful product surges ended in the agreement's tenth year. Under the 2010 supplemental agreement, the special auto safeguard is available for 10 years beyond the full elimination of tariffs for each Korean auto product. Under this motor vehicle safeguard, the U.S. government is not required to offer Korea tariff reductions or other compensation – generally required when a safeguard is applied – for up to two years after this particular safeguard is applied. The special motor vehicle safeguard can be applied more than once per particular auto product if more than one surge causes serious damage to U.S. production of that product. The higher tariffs of the special motor vehicle safeguard can be applied to a particular product for as long as four years, instead of three years as in the agreement's general safeguard. There is no requirement for the U.S. to progressively re-lower tariffs while the special motor vehicle safeguard is applied. Fewer procedural steps are required to speed up the application of the safeguard when workers need faster relief.

***Enforcement:*** The 2007 agreement creates a tough remedy for the United States to re-impose as much as \$200 million in U.S. tariffs (i.e., “snapping back” to pre-agreement levels) on Korean passenger cars if U.S. auto business in Korea is materially affected by Korean violations of the agreement. The 2010 supplemental agreement substantially increases Korea's obligations in a number of areas subject to this strong enforcement mechanism.